



LDIC North American Small Business Fund (Corporate Class)

Financial Statements

December 31, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of LDIC North American Small Business Fund (Corporate Class) (the "Fund")

We have audited the accompanying financial statements of the Fund, which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable shares and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada
March 6, 2018

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants



LDIC North American Small Business Fund (Corporate Class)

Statements of Financial Position

As at December 31,

	2017	2016
Assets		
Current assets		
Financial assets at fair value through profit or loss (note 3)	\$ 27,245,098	\$ 18,604,254
Cash	5,032,178	1,294,676
Accrued dividends	45,604	45,849
Accrued interest	7,470	-
Subscriptions receivable	-	5,825
Other receivable	60,466	-
Total assets	32,390,816	19,950,604
Liabilities		
Current liabilities		
Financial liabilities at fair value through profit or loss (note 3)	550,528	-
Performance fees	493,949	-
Accrued expenses	98,459	97,607
Dividends payable	3,936	-
Payable for investments purchased	-	85,802
Management fees payable	33,819	19,560
Total liabilities (excluding Net Assets attributable to holders of redeemable shares)	1,180,691	202,969
Net Assets attributable to holders of redeemable shares (note 4)	\$ 31,210,125	\$ 19,747,635
Net Assets attributable to holders of redeemable shares per series		
Series A	\$ 4,689,792	\$ 2,842,989
Series F	\$ 13,299,194	\$ 11,635,004
Series F1	\$ 13,221,139	\$ 5,269,642
Net Assets attributable to holders of redeemable shares per series per share (note 4)		
Series A	\$ 13.34	\$ 12.45
Series F	\$ 13.62	\$ 12.60
Series F1	\$ 13.60	\$ 12.63

Approved on behalf of LDIC Inc., as manager of the LDIC North American Small Business Fund (Corporate Class).

/s/ Michael B. Decter

Michael B. Decter, Director

/s/ Ron Bailey

Ron Bailey, Director

LDIC North American Small Business Fund (Corporate Class)
Statements of Comprehensive Income

For the years ended December 31,

	2017	2016
Net gain (loss) on financial instruments		
Dividend income	\$ 294,002	\$ 215,730
Interest for distribution purposes	12,650	37,599
Dividends paid on investments sold short	(12,515)	(12,025)
Foreign exchange gain (loss)	29,188	(31,106)
Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss		
Net realized gain (loss) on sale of investments	3,469,841	2,691,578
Change in unrealized appreciation (depreciation) in value of investments	2,073,334	1,500,754
Change in unrealized appreciation (depreciation) in value of foreign exchange from currency	(14,344)	2,339
Net gain (loss) on financial instruments	5,852,156	4,404,869
Expenses (note 5)		
Performance fees	499,274	2,261
Management fees	387,496	172,466
Custodian fees	8,245	9,427
Audit fees	20,173	21,766
Legal fees	15,879	29,960
Valuation fees	33,027	35,311
Independent review committee fees	3,304	3,409
Transaction costs (note 7)	301,214	180,218
Filing fees	22,250	36,286
Securityholder reporting costs	13,865	7,946
Other expenses	59,847	71,024
Total operating expenses	1,364,574	570,074
Operating profit (loss)	4,487,582	3,834,795
Withholding taxes (note 6)	(1,624)	(1,757)
Increase (decrease) in Net Assets attributable to holders of redeemable shares from operations (excluding distributions)	\$ 4,485,958	\$ 3,833,038
Increase (decrease) in Net Assets attributable to holders of redeemable shares per series from operations (excluding distributions)		
Series A	\$ 620,664	\$ 417,849
Series F	\$ 2,040,100	\$ 2,766,516
Series F1	\$ 1,825,194	\$ 648,673
Average number of shares outstanding for the year per series		
Series A	307,821	131,318
Series F	977,438	937,228
Series F1	813,991	299,507
Increase (decrease) in Net Assets attributable to holders of redeemable shares per share from operations (excluding distributions)		
Series A	\$ 2.02	\$ 3.18
Series F	\$ 2.09	\$ 2.95
Series F1	\$ 2.24	\$ 2.17

The accompanying notes are an integral part of these financial statements

LDIC North American Small Business Fund (Corporate Class)
Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares
For the years ended December 31,

	2017	2016	2017	2016
	Series A		Series F	
Net Assets attributable to holders of redeemable shares at beginning of year	\$ 2,842,989	\$ 936,021	\$ 11,635,004	\$ 8,873,090
Increase (decrease) in Net Assets attributable to holders of redeemable shares from operations (excluding distributions)	620,664	417,849	2,040,100	2,766,516
Redeemable share transactions				
Proceeds from redeemable shares issued	2,062,162	1,494,580	-	818,264
Redemption of redeemable shares	(779,800)	(5,461)	(357,939)	(822,866)
Reinvestments of distributions to holders of redeemable shares	216,466	-	987,375	-
	1,498,828	1,489,119	629,436	(4,602)
Distributions to holders of redeemable shares				
From net investment income	(65,343)	-	(185,238)	-
From net realized capital gains	(207,346)	-	(820,108)	-
	(272,689)	-	(1,005,346)	-
Net increase (decrease) in Net Assets attributable to holders of redeemable shares	1,846,803	1,906,968	1,664,190	2,761,914
Net Assets attributable to holders of redeemable shares at end of year	\$ 4,689,792	\$ 2,842,989	\$ 13,299,194	\$ 11,635,004

	2017	2016	2017	2016
	Series FI		Total	
Net Assets attributable to holders of redeemable shares at beginning of year	\$ 5,269,642	\$ -	\$ 19,747,635	\$ 9,809,111
Increase (decrease) in Net Assets attributable to holders of redeemable shares from operations (excluding distributions)	1,825,194	648,673	4,485,958	3,833,038
Redeemable share transactions				
Proceeds from redeemable shares issued	7,080,407	4,625,137	9,142,569	6,937,981
Redemption of redeemable shares	(941,417)	(4,168)	(2,079,156)	(832,495)
Reinvestments of distributions to holders of redeemable shares	593,174	-	1,797,015	-
	6,732,164	4,620,969	8,860,428	6,105,486
Distributions to holders of redeemable shares				
From net investment income	(175,838)	-	(426,419)	-
From net realized capital gains	(430,023)	-	(1,457,477)	-
	(605,861)	-	(1,883,896)	-
Net increase (decrease) in Net Assets attributable to holders of redeemable shares	7,951,497	5,269,642	11,462,490	9,938,524
Net Assets attributable to holders of redeemable shares at end of year	\$ 13,221,139	\$ 5,269,642	\$ 31,210,125	\$ 19,747,635

The accompanying notes are an integral part of these financial statements

LDIC North American Small Business Fund (Corporate Class)

Statements of Cash Flows

For the years ended December 31,

	2017	2016
Cash flows from (used in) operating activities		
Increase (decrease) in Net Assets attributable to holders of redeemable shares from operations (excluding distributions)	\$ 4,485,958	\$ 3,833,038
Adjustments for:		
Foreign exchange (gain) loss	(29,188)	31,106
Net realized (gain) loss on sale of investments	(3,469,841)	(2,691,578)
Change in unrealized (appreciation) depreciation in value of investments	(2,073,334)	(1,500,754)
Purchases of investments	(42,922,615)	(26,843,031)
Proceeds from sale of investments	40,289,672	22,015,838
Accrued dividends	245	(28,178)
Accrued interest	(7,470)	-
Other receivable	(60,466)	-
Performance fees	493,949	(169,063)
Accrued expenses	852	52,951
Dividends payable	3,936	10,676
Management fees payable	14,259	-
Net cash from (used in) operating activities	(3,274,043)	(5,288,995)
Cash flows from (used in) financing activities		
Distributions paid to holders of redeemable shares, net of reinvested distributions	(86,881)	-
Proceeds from redeemable shares issued	9,148,394	6,938,156
Redemption of redeemable shares	(2,079,156)	(832,495)
Net cash from (used in) financing activities	6,982,357	6,105,661
Foreign exchange gain (loss)	29,188	(31,106)
Net increase (decrease) in cash	3,708,314	816,666
Cash at beginning of year	1,294,676	509,116
Cash at end of year	\$ 5,032,178	\$ 1,294,676
Supplemental Cash Flow Information:		
Dividends received, net of withholding taxes	\$ 292,623	\$ 185,795
Dividends paid on investments sold short	(8,579)	(12,025)
Interest received	5,180	37,599

LDIC North American Small Business Fund (Corporate Class)

Schedule of Investment Portfolio

As at December 31, 2017

Par Value/ Number of Shares	Description	Maturity Date/ Expiry Date	Coupon Rate	Average Cost (\$)	Fair Value (\$)	% of Net Assets
Bonds						
Corporate Bonds						
480,000	Hydro One Ltd.	Sep 30, 2027	4.000%	159,840	178,440	
	Total Bonds			159,840	178,440	0.6
Equities - Long						
Canadian Equities						
Consumer Discretionary						
79,000	Ascendant Resources Inc., Warrants	Mar 7, 2022		18,963	18,960	
144,200	Imvescor Restaurant Group Inc.			382,078	624,386	
120,000	Kew Media Group Inc.			1,188,212	1,105,200	
26,600	Park Lawn Corp.			456,760	607,810	
32,100	Pollard Banknote Ltd.			320,527	558,540	
20,000	Stars Group Inc.			452,164	585,000	
125,400	Wow Unlimited Media Inc.			225,674	221,331	
				3,044,378	3,721,227	11.9
Consumer Staples						
61,000	Andrew Peller Ltd.			692,948	951,600	
350,000	Centric Health Corp.			191,765	182,000	
40,000	High Liner Foods Inc.			608,536	593,200	
82,300	Liquor Stores NA Ltd.			791,413	878,964	
110,000	Rogers Sugar Inc.			651,380	695,200	
				2,936,042	3,300,964	10.5
Energy						
50,000	Kelt Exploration Ltd.			349,900	359,500	
55,000	Source Energy Services Ltd.			528,350	499,950	
85,000	Spartan Energy Corp.			567,236	611,150	
75,000	ZCL Composites Inc.			935,929	840,750	
				2,381,415	2,311,350	7.4
Financials						
145,000	ECN Capital Corp.			463,221	569,850	
225,000	Westaim Corp.			720,413	699,750	
				1,183,634	1,269,600	4.1
Health Care						
181,500	Akumin Inc.			845,519	1,073,372	
415,000	Canopy Rivers			249,000	249,000	
39,725	Hydrothecary Corp., Warrants	Nov 24, 2019		-	43,300	
				1,094,519	1,365,672	4.4
Industrials						
25,000	Badger Daylighting Ltd.			659,665	679,500	
13,500	Cargojet Inc.			594,945	791,775	
871,200	Empire Industries Ltd.			545,303	470,448	
100,000	People Corp.			425,261	770,000	
				2,225,174	2,711,723	8.7
Information Technology						
260,000	Baylin Technologies Inc.			600,208	894,400	
222,100	Firan Technology Group Corp.			756,934	801,781	
37,500	Hut 8 Mining Corp.			93,750	93,750	
412,500	Reliq Health Technologies Inc.			320,275	532,125	
98,800	Sylogist Ltd.			905,552	995,904	
47,300	TECSYS Inc.			510,004	793,694	
				3,186,723	4,111,654	13.2

LDIC North American Small Business Fund (Corporate Class)

Schedule of Investment Portfolio

As at December 31, 2017

Number of Shares	Description	Average Cost (\$)	Fair Value (\$)	% of Net Assets
Materials				
55,000	Altius Minerals Corp.	642,369	822,250	
150,000	Conifex Timber Inc.	460,071	825,000	
35,000	Detour Gold Corp.	459,641	517,300	
225,000	Neo Lithium Corp.	457,345	517,500	
350,000	Sherritt International Corp	471,230	602,000	
3,023,000	Sprott Resource Holdings Inc.	537,776	468,565	
40,000	STEP Energy Services Ltd.	537,444	410,400	
240,000	Superior Gold Inc.	241,750	256,800	
		<u>3,807,626</u>	<u>4,419,815</u>	<u>14.2</u>
Real Estate				
33,200	Information Services Corp.	608,636	610,548	
225,300	StorageVault Canada Inc.	290,430	592,539	
		<u>899,066</u>	<u>1,203,087</u>	<u>3.9</u>
Utilities				
40,200	Polaris Infrastructure Inc.	560,913	699,078	2.2
U. S. Equities				
Financials				
27,000	Currency Exchange International Corp.	695,075	684,855	2.2
Materials				
247,600	Geodrill Ltd.	597,858	515,009	
9,000	Itafos	18,180	21,780	
		<u>616,038</u>	<u>536,789</u>	<u>1.7</u>
Health Care				
629,200	Nubeva Inc.	377,520	377,520	1.2
Utilities				
30,459	Global Water Resources Inc.	228,872	353,324	1.1
Transaction costs				
		(75,309)		
Total Equities – Long				
		<u>23,161,686</u>	<u>27,066,658</u>	<u>86.7</u>
Equities - Short				
Canadian Equities				
Consumer Staples				
(19,600)	AGT Food & Ingredients Inc.	(462,374)	(394,156)	
(99,600)	Input Capital Corp.	(184,641)	(156,372)	
		<u>(647,015)</u>	<u>(550,528)</u>	<u>(1.8)</u>
Transaction costs				
		(1,958)		
Total Equities – Short				
		<u>(648,973)</u>	<u>(550,528)</u>	<u>(1.8)</u>
Total Equities				
		<u>22,512,713</u>	<u>26,516,130</u>	<u>84.9</u>
Total Investments				
		<u>22,672,553</u>	<u>26,694,570</u>	<u>85.5</u>
Other Assets, Less Liabilities				
			<u>4,515,555</u>	<u>14.5</u>
Net Assets Attributable to Holders of Redeemable Shares				
		<u>\$</u>	<u>31,210,125</u>	<u>100.0</u>

LDIC North American Small Business Fund (Corporate Class)

Notes to Financial Statements

As at December 31, 2017 and 2016

1. GENERAL INFORMATION

The LDIC North American Small Business Fund (Corporate Class) (the “Fund”) is a class of shares of LDIC Mutual Fund Corporation Inc. The investment objective of the Fund is principally to provide long-term capital appreciation and income by investing primarily in equity and fixed income securities of small capitalization companies based in North America. The address of the Fund’s registered office is LDIC Inc., 130 King Street West, Suite 2130, Toronto, Ontario. These financial statements were authorized for issue by LDIC Inc. (the “Manager”) on March 6, 2018.

The Fund may create an unlimited number of series of shares, and may offer and sell an unlimited number of shares of each series. Currently, the Fund offers Series A shares, Series F shares and Series F1 shares. The capital received by the Fund is utilized within the investment mandate of the Fund. This includes the ability to make liquidity to satisfy shareholders’ share redemption requirements upon the shareholders’ request. The Fund is not subject to any externally imposed capital requirements.

Series A shares are designed for retail investors. Dealers through whom Series A shares are purchased will receive initial commissions payable by the investor and on-going service fees (also called “trailer fees” or “trailing commissions”) from the Manager on behalf of the Fund. The inception date for Series A is May 29, 2015.

Series F shares are designed for investors who participate in fee-based investment programs offered by their dealers. Series F shares are only available to investors whose dealer has entered into an agreement with the Manager to make Series F shares available to clients of that dealer. The inception date for Series F is May 22, 2015.

Series F1 shares are designed for investors who participate in fee-based investment programs offered by their dealers. Series F1 shares are only available to investors whose dealer has entered into an agreement with the Manager to make Series F1 shares available to clients of that dealer. The inception date for Series F1 is May 31, 2016.

2. BASIS OF PRESENTATION

These financial statements of the Fund have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board (“IASB”).

The policies applied in these financial statements are based on IFRS standards issued and outstanding as of March 6, 2018, which is the date on which the annual financial statements were authorized for issue by the Manager.

In the preparation of these financial statements, management has made judgments, estimates and assumptions that affect the application of the Fund’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

These financial statements have been presented in Canadian dollars, which is the Fund’s functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

The Fund’s functional and presentation currency is the Canadian dollar. Foreign currency purchases and sales of investments and foreign currency dividend and interest income and expenses are translated into Canadian dollars at the rate of exchange prevailing at the date of the transactions.

Foreign exchange gains (losses) on purchases and sales of foreign currencies are included in the Statements of Comprehensive Income – Foreign exchange gain (loss).

The fair values of investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the Statement of Financial Position date.

LDIC North American Small Business Fund (Corporate Class)

Notes to Financial Statements

As at December 31, 2017 and 2016

(b) Financial instruments

The Fund classifies its investments in debt and equity securities, or financial assets or liabilities at fair value through profit or loss ("FVTPL"). There are two sub-categories: financial assets or financial liabilities held for trading and those designated at FVTPL at inception. The Fund's investments in equity securities are designated at FVTPL at inception. The Fund's obligation for Net Assets attributable to holders of redeemable shares is presented at the redemption amount.

All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amounts required to be received or paid, discounted when appropriate, at the financial instrument's effective interest rate.

The Fund's accounting policies for measuring the fair value of its investments are identical to those used in measuring its published Net Asset Value ("NAV"). The fair values of the Fund's financial assets and liabilities that are not carried at FVTPL approximate their carrying amounts due to their short-term nature.

Financial instruments classified as held for trading: Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and/or repurchasing in the near term, and are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

Financial instruments designated as FVTPL at inception: All investments held by the Fund are designated as FVTPL upon initial recognition. These financial assets are designated upon initial recognition on the basis that they are part of a group of financial assets that are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund, as set out in the Fund's prospectus.

(c) Fair value measurements

Financial instruments are valued at their fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

The Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

A valuation hierarchy table has been included in Note 10, Fair Value Disclosure.

(d) Cash

Cash comprises of deposits with financial institutions.

LDIC North American Small Business Fund (Corporate Class)

Notes to Financial Statements

As at December 31, 2017 and 2016

(e) Multi-series allocation

Expenses, realized and unrealized gains/losses and income generally are allocated among the series on a pro-rata basis.

Series-specific management fees are not allocated and do not require allocation.

(f) Transaction costs

Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities, are expensed and are included in “Transaction costs” in the Statements of Comprehensive Income.

(g) Share valuation and valuation date

Shares are issued and redeemed on a continuing basis at the Net Assets attributable to holders of redeemable shares, which is determined for each series of shares of the Fund on each valuation day. A “valuation day” is any day that the Toronto Stock Exchange is open for business, unless the Fund is not accepting orders to purchase, switch or redeem shares on that day (in the circumstances described in simplified prospectus for the Fund in the section called “Purchases and redemptions”). To determine the NAV per share for a series of shares of a Fund, the Manager or its agent determines the value of the proportionate share of the assets of the Fund attributable to the particular series less the liabilities of the Fund attributed to only that series and the proportionate share of the common liabilities of the Fund allocated to that series. This amount is then divided by the total number of shares of that series then held by investors.

(h) Investment transactions

Investment transactions are accounted for on the trade date. All income, net realized gains (losses), unrealized appreciation (depreciation) in the value of investments and transaction costs are attributable to investments that are deemed held for trading.

(i) Revenue recognition

- The interest for distribution purposes shown on the Statements of Comprehensive Income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed-income securities, except for zero coupon bonds, which are amortized on a straight-line basis.
- Dividend income is recorded on the ex-dividend date and is gross of withholding taxes.
- Realized gains and losses on investments and unrealized appreciation (depreciation) in the value of investments are calculated with reference to the average cost of the related investments.

(j) Increase (decrease) in Net Assets attributable to holders of redeemable shares per share

The increase (decrease) in Net Assets attributable to holders of redeemable shares per share in the Statements of Comprehensive Income represents the net increase (decrease) in Net Assets attributable to holders of redeemable shares per share, divided by the weighted average number of shares outstanding during the period of that series of shares.

(k) Accounting standards issued but not yet adopted

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after January 1, 2018, with early application permitted. IFRS 9 brings together three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

LDIC North American Small Business Fund (Corporate Class)

Notes to Financial Statements

As at December 31, 2017 and 2016

The Fund will adopt IFRS 9 for annual periods beginning January 1, 2018. Based on the Fund's business model and contractual cash flow characteristics, the Manager anticipates that all portfolio investments will continue to be measured at fair value. As the Fund does not apply hedge accounting and primarily all financial instruments are measured at fair value, the Manager expects no significant impact on the Fund's net assets and results of operations on adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a five-step model to account for revenue arising from contracts with customers and is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Given that primarily all of the revenue streams of the Fund falls outside of the scope of IFRS 15, the Manager has assessed that there is minimal impact to the financial statements arising on the adoption of this standard.

(I) Critical accounting estimates and judgments

- Fair value measurements of financial instruments not quoted in an active market

The Fund may hold financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. When no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally, recognized as standard within the industry.

- Classification and measurement of financial instruments and application of fair value option

In classifying and measuring financial instruments held by the Fund, the Manager is required to make judgments about the classification of financial instruments and the applicability of the fair value option to its investments that are not held for trading. The fair value option has been applied to the Fund's investments in equity securities as the investments are managed on a fair value basis in accordance with the Fund's investment strategy.

4. REDEEMABLE SHARES

The shares of the Fund are issued and redeemed at their Net Assets attributable to holders of redeemable shares per share. Net Assets attributable to holders of redeemable shares per series per share is determined on a daily basis by dividing the Fund's Net Assets attributable to holders of redeemable shares per series by the total number of shares of the series of the Fund that are outstanding on such valuation date.

The Fund has no restrictions or specific capital requirements on the issuance and redemptions of shares. In accordance with its investment objectives, strategies and risk management practices, the Fund endeavours to invest the amounts received on issuance of shares in appropriate investments in order to maximize shareholder value and maintain financial strength while preserving sufficient liquidity to meet redemptions.

During the year, share transactions of the Fund were as follows:

		2017	
	Series A	Series F	Series F1
Outstanding at the beginning of the year	228,310	923,159	417,085
Redeemable shares issued	170,867	-	581,220
Redeemable shares reinvested	18,197	82,221	48,825
Redeemable shares redeemed	(65,921)	(29,031)	(74,800)
Outstanding at the end of the year	351,453	976,349	972,330

LDIC North American Small Business Fund (Corporate Class)

Notes to Financial Statements

As at December 31, 2017 and 2016

	Series A	2016 Series F	Series F1
Outstanding at the beginning of the year	96,931	918,432	-
Redeemable shares issued	131,958	84,868	417,434
Redeemable shares redeemed	(579)	(80,141)	(349)
Outstanding at the end of the year	228,310	923,159	417,085

5. RELATED PARTY TRANSACTIONS

As of December 31, 2017, the Manager of the Fund and certain Directors and Officers of the Manager held a total of 368,380 (2016 - 337,621) Series F shares and 68,515 (2016 - 50,378) Series F1 shares of the Fund.

Management fees and expenses

The Manager provides investment and administrative services to the Fund. In consideration for these services, the Manager receives a fee based on a percentage of the Net Assets of the Fund calculated daily and payable monthly, as follows:

Series A - 2.00% per annum

Series F - 1.00% per annum

Series F1 - 1.50% per annum

The Fund is responsible for the payment of all expenses relating to its operations and the carrying on of its business. These expenses include, but are not limited to, administration and accounting costs, the costs of any back-office service provider retained by the Manager, transaction costs, audit and legal fees, custodian fees, index licensing fees, regulatory filing fees, the costs of preparing and distributing annual and semi-annual financial statements, prospectuses, shareholder reports and investor communications. At certain times, the Manager may pay a portion of the expenses otherwise payable by the Fund.

At its sole discretion, the Manager may stop absorbing operating expenses and/or waiving management fees at any time. Operating expenses absorbed and/or management fees waived by the Manager are disclosed on the Statements of Comprehensive Income.

The Fund will pay a performance fee to LDIC Inc., plus applicable taxes, at the end of each fiscal year. The performance fee will be 15% of the amount by which the series NAV at the end of the fiscal year (the "ending NAV") exceeds the target NAV. The target NAV is calculated by multiplying the Series NAV, net of performance fees paid, as at the last performance fee payment date (the "beginning NAV") by the sum of one plus the return of the Fund's "benchmark" (the "benchmark return") over the same period.

6. TAXATION OF THE FUND AND ALLOCATION TO SHAREHOLDERS

LDIC Mutual Fund Corporation Inc. (the "Corporation") qualifies as a mutual fund corporation under the *Income Tax Act* (Canada) (the "Act"). The general income tax rules associated with a public corporation also apply to a mutual fund corporation, with the exception that income taxes payable on realized capital gains are refundable on a formula basis when shares are redeemed or capital gains dividends are paid. The Corporation is a single legal entity for tax purposes and is not taxed on a fund-by-fund or class-by-class basis.

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The Corporation has a tax year-end of December 31. All of the Fund's expenses, including expenses common to all series of the Fund and management fees and other expenses specific to a particular series of a Fund, will be taken into account in determining the income or loss of the Corporation as a whole. Similarly, all of the Fund's revenues, deductible expenses, capital gains and capital losses and other items relevant to the tax position will be taken into account in determining the income or loss of the Corporation and applicable taxes payable, including refundable capital gains taxes, by the Corporation as a whole. Similarly, the Fund is subject to Part IV tax on dividends received from Canadian corporations; however, they are refundable once paid to shareholders. As a result, the Fund does not record income taxes related to capital gains and dividends from Canadian corporations. Interest and foreign income are taxed at normal corporate rates applicable to mutual fund corporations and can be reduced by permitted deductions for tax purposes. All of the Fund's expenses, including management fees and operating expenses, will be taken into account in determining its overall tax liability, if any. Funds may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date. The Fund has accumulated capital loss carry-forwards as of December 31, 2017 of nil (2016 - nil). The Fund has accumulated non-capital loss carry-forwards as of December 31, 2017 of nil (2016 - nil).

7. TRANSACTION COSTS

Commissions and other transaction fees paid for portfolio transactions for the year ended December 31, 2017 were \$301,214 (2016 - \$180,218).

8. SOFT DOLLAR COMMISSIONS

In addition to covering brokerage services on security transactions, commissions paid to certain brokers may also cover research services provided to the Manager. The value of the research services included in the commissions paid by the Fund to those brokers for the years ended December 31, 2017 and 2016 was \$20,639 and nil, respectively.

9. FINANCIAL RISK MANAGEMENT

In the normal course of operations, the Fund's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (which includes interest rate risk, currency risk, other price risk and concentration risk). The value of investments in a Fund's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions and market news related to specific securities in the portfolio. The level of risk depends on the Fund's objectives and the type of securities that it holds. In order to mitigate risk, depending on conditions, the Manager diversifies the portfolio based on criteria such as asset class, country, industry and currency. Significant risks that are relevant to the Fund are discussed below. "Net Assets" below is defined as Net Assets attributable to holders of redeemable shares.

(a) Credit risk

Credit risk represents the potential loss that the Fund would incur if counterparties failed to perform in accordance with the terms of their obligations to the Fund. The Manager only trades with approved counterparties and monitors reporting that includes approved counterparty listings, trade volumes and exposure reports. The risk of default is considered minimal, as delivery of securities sold is only made once the Fund has received payment. Payment is made on a purchase once the securities have been received by the Fund. The trade will fail if either party fails to meet its obligation. The Fund maintains all of its cash and cash equivalents at the custodian or in overnight deposits with approved counterparties and ensures that appropriate collateral is received.

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As at December 31, 2017 and 2016

As at December 31, 2017 and 2016, the Fund had directly invested in debt instruments with the following Standard & Poor's credit ratings:

Portfolio by rating category	As a % of Net Assets	
	December 31, 2017	December 31, 2016
A	0.6%	-

(b) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations associated with its financial liabilities. The Fund's primary exposure to liquidity risk relates to its shareholders' rights to redeem their shares on any valuation date. Liquidity risk is managed by retaining sufficient cash and cash equivalent positions and investing the majority of the Fund's assets in portfolio investments that are traded in an active market and can be readily disposed of. There can be no assurance that an active trading market for the investments will exist at all times, or that the prices at which the securities trade accurately reflect their values.

Thin trading in a security could make it difficult to liquidate holdings quickly. The Manager considers market depth and the relationship between liquidity and size of the position as part of the criteria for approval of a new investment and in its periodic re-evaluation of the investment.

(c) Market risk

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund's activities may expose it to different types of market risk including currency risk, interest rate risk, other price risk and concentration risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises on interest-bearing financial instruments.

As at December 31, 2017 and 2016, the Fund's direct exposure to debt instruments by maturity was as follows:

		Less than 1 year (\$)	1 - 5 years (\$)	More than 5 years (\$)	Total (\$)
Interest rate exposure	2017	-	-	178,440	178,440
	2016	-	-	-	-

As at December 31, 2017, should interest rates have decreased or increased by 0.25% with all other variables remaining constant, the increase or decrease in Net Assets for the year would amount to approximately \$2,960 (2016 - nil). In practice, the actual trading results may differ, and the difference could be material.

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As at December 31, 2017 and 2016

(ii) Currency risk

Currency risk is the risk that the fair value of financial instruments denominated in currencies other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate because of changes in foreign exchange rates.

	December 31, 2017		December 31, 2016	
	Currency Exposure (\$)	Percentage of Net Assets (%)	Currency Exposure (\$)	Percentage of Net Assets (%)
U.S. dollar	1,075,189	3.4	579,205	2.9

As at December 31, 2017, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies represented in the portfolio, with all other variables remaining constant, Net Assets would have decreased or increased by approximately \$53,759(2016 - \$28,960). In practice, the actual results may differ and the difference could be material.

(iii) Other price risk

Other price risk represents the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment.

The Fund is exposed to other price risk from investments in equities. As at December 31, 2017, approximately 84.96% (2016 - 94.21%) of the Fund's Net Assets were held directly in equities. If equity prices on the exchanges increased or decreased by 5% as at December 31, 2017, the Net Assets of the Fund would have increased or decreased by approximately \$1,325,807, or 4.2% (2016 - \$930,213, or 4.7%) with all other factors remaining constant. In practice, the actual results may differ and the difference could be material.

(iv) Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type.

The following is a summary of the Fund's concentration risk:

Investment Sector	December 31, 2017	December 31, 2016
Corporate Bonds	0.6%	-
Consumer Discretionary	11.9%	14.1%
Consumer Staples - Long	10.5%	6.7%
Energy	7.4%	21.3%
Financials	6.3%	4.4%
Health Care	5.6%	1.9%
Industrials	8.7%	17.7%
Information Technology	13.2%	13.7%
Materials	15.9%	8.7%
Real Estate	3.9%	-
Utilities	3.3%	5.7%
Consumer Staples - Short	(1.8%)	-
Net Other Assets/Liabilities	14.5%	5.8%
Total	100.0%	100.0%

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10. FAIR VALUE DISCLOSURE

The following tables illustrate the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2017 and 2016:

Financial Assets (Liabilities) at Fair Value as at December 31, 2017				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Equities - Long	26,284,128	-	720,270	27,004,398
Warrants	18,960	43,300	-	62,260
Bonds	-	178,440	-	178,440
Equities - Short	(550,528)	-	-	(550,528)
	25,752,560	221,740	720,270	26,694,570

Financial Assets (Liabilities) at Fair Value as at December 31, 2016				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Equities	17,306,661	1,224,218	-	18,530,879
Warrants	63,375	10,000	-	73,375
	17,370,036	1,234,218	-	18,604,254

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used to determine their fair value:

	Equities
Balance as at December 31, 2016	\$ -
Purchases	1,565,789
Sales	-
Net transfers in (out)	(845,519)
Realized gains (losses)	-
Change in unrealized appreciation on investments	-
Balance as at December 31, 2017	\$ 720,270
Net change in unrealized appreciation from investments as at December 31, 2017	\$ -

The Fund Manager of the Fund is responsible for performing the valuation of the fair value measurements included in the financial statements, including the level 3 fair values. As at December 31, 2017, the fair values of level 3 securities held by the Fund were comprised of the following securities and the unobservable inputs used in the fair value measurement of these investments were:

Investment Name	Fair Value (\$)	Valuation Technique	Unobservable inputs
Canopy Rivers	249,000	Recent Transactions	N/A
Hut 8 Mining Corp.	93,750	Recent Transactions	N/A
Nubeva Inc.	377,520	Recent Transactions	N/A
Total	720,270		

There is no sensitivity impact to the fair value of level 3 securities.

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11. CAPITAL MANAGEMENT

The investment objective of the Fund is to provide long-term capital appreciation and income by investing primarily in equity and fixed-income securities of small capitalization companies based in North America. The capital of the Fund is divided into three series, Series A, Series F and Series F1, with each series having an unlimited number of shares. The shares issued and outstanding represent the capital of the Fund, and shareholders are entitled to distributions when declared.

The Fund manages its capital in accordance with the investment objectives and strategies and the risk management practices outlined in Note 9, Financial Risk Management. The Manager actively monitors the cash position and financial performance to ensure sufficient liquidity to meet operating expenses, distributions and redemptions.